

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

CEQ-01 EPA-01 OES-03 FEA-01 /106 W

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P R 030907Z FEB 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6604

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS UNN

COMUSJAPAN YOKOTA AB JAPAN

CINCPAC HONOLULU HAWAII

LIMITED OFFICIAL USE SECTION 1 OF 2 TOKYO 1629

DEPT PASS COMMERCE, DOD, TREASURY, CEA AND FEDERAL RESERVE

E. O. 11652: N/A

TAGS: EFIN, JA

SUBJ: JAPAN GOVERNMENT DRAFT BUDGET FY 1976

1. SUMMARY: JFY 1976 BUDGET APPROVED BY CABINET DEC 31 AND PRE-SENTED TO THE DIET ON JANUARY 23 SETS ECONOMIC RECOVERY WITH PRICE STABILITY AS THE GOVERNMENT'S PRIME DOMESTIC OBJECTIVE. ALTHOUGH THE BUDGET PROJECTS A RECORD DEFICIT OF \$24 BIL, ITS SLIGHT EXPAN-SIONARY IMPACT WILL NOT ADD MUCH TO RECOVERY. CONSUMER DEMAND AND BUSINESS INVESTMENT ARE STILL LAGGING. DEFENSE SPENDING WILL RISE 13.9 PERCENT OVER LAST YEAR, BARELY AHEAD OF INFLATION, AND FOREIGN AID IS UP ONLY 3.6 PERCENT. END SUMMARY.

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2. BUDGET FOR THE YEAR BEGINNING APRIL 1 PROJECTS EXPENDITURES FOR THE "GENERAL ACCOUNT" OF \$80 BIL (AT 303 YEN/ DOL), UP 14.1 PERCENT OVER INITIAL BUDGET OF CURRENT FISCAL YEAR. AFTER INCLUDING LAST FALL'S SUPPLEMENTAL BUDGET, WHICH RAISED PUBLIC WORKS SPENDING BUT REDUCED TAX TRANSFERS TO LOCAL GOVERNMENTS (SEE 75 TOKYO A-544), THE GENERAL ACCOUNT BUDGET EXPENDITURES WILL BE UP 16.6 PERCENT OVER THIS YEAR. IN ADDITION, OUTLAYS UNDER THE FISCAL LOAN AND INVESTMENT PROGRAM (FLIP IS A CAPITAL ACCOUNT BUDGET) WILL AMOUNT TO \$35 BIL, 14.1 PERCENT HIGHER THAN INITIALLY BUDGETED FOR THE CURRENT YEAR BUT DOWN 0.8 PERCENT AFTER INCLUDING SUPPLEMENTALS. REVENUES ON THE OTHER HAND, ARE STILL DEPRESSED BY LOW BUSINESS PROFITS, AND ARE ESTIMATED AT \$56 BIL, OR THE SAME AS TWO YEARS AGO, JFY 1974.

3. AS A RESULT, THE BUDGET PROJECTS A RECORD "DEFICIT" OF \$24 BIL TO BE FINANCED THROUGH BOND SALES IN COMPARISON WITH THIS YEAR'S DEFICIT OF \$18 BIL, AND DEFICITS AVERAGING ONLY \$5 BIL IN THE PREVIOUS FIVE YEARS. ON A USGNP EQUIVALENT, NEXT YEAR'S DEFICIT AMOUNTS TO \$72 BIL, NOT MUCH LESS THAN THE U.S. BUDGET DEFICIT OF \$76 BIL FOR THIS FISCAL YEAR. IN JAPAN THOUGH, CENTRAL GOVERNMENT PURCHASES OF GOODS AND SERVICES ARE ONLY ABOUT 4 PERCENT OF GNP, OR HALF THE 8 PERCENT FOR THE U.S.

4. MUCH PUBLICITY HAS BEEN GIVEN TO BUDGET'S EMPHASIS ON PUBLIC WORKS AND EXPORT PROMOTION. NEVERTHELESS PUBLIC WORKS SPENDING IN THE GENERAL ACCOUNT WILL BE UP ONLY 6.4 PERCENT OVER THIS YEAR (INCLUDING SUPPLEMENTAL), WHILE THE NUMBER OF PUBLICLY ASSISTED OR FINANCED HOUSES TO BE CONSTRUCTED WILL BE REDUCED BY 6.0 PERCENT AND WILL DROP 11 PERCENT BELOW THE NUMBER FINANCED TWO YEARS AGO. FIN MIN OHIRA HAS SAID THAT UNLIKE THIS YEAR, THERE WILL BE NO SUPPLEMENTAL BUDGET IN JFY 1976 BECAUSE THE PROJECTED DEFICIT IS ALREADY TOO LARGE. EXPORTS ARE TO BE PROMOTED PRIMARILY THROUGH LARGER CREDITS BY THE EXPORT-IMPORT BANK OF JAPAN. IT ANTICIPATES GROSS EXPORT CREDIT DISBURSEMENTS WILL TOTAL YEN 1,110 BIL (\$3.7 BIL) OR 19 PERCENT MORE THAN JFY 1975. CREDIT FOR SHIP EXPORTS ARE TO RISE 118 PERCENT AND FOR INDUSTRIAL PLANTS BY 65 PERCENT (TO \$1.2 BIL).

5. BUDGETS FOR BOTH DEFENSE AND FOREIGN AID WILL INCREASE PROPORTIONATELY LESS THAN THE TOTAL, THEREBY DECLINING AS A PERCENT OF LIMITED OFFICIAL USE

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THE TOTAL GENERAL ACCOUNT EXPENDITURES. NATIONAL DEFENSE IS BUDGETED AT YEN 1,512.4 BIL (\$5 BIL, AND INCREASE OF ONLY 13.9 PERCENT OVER LAST YEAR'S INITIAL BUDGET AND WILL REPRESENT 6.2 PERCENT OF TOTAL EXPENDITURES. THE FOREIGN ECONOMIC COOPERATION BUDGET OF YEN 183.1 BIL (\$0.6 BIL) IS UP ONLY 3.6 PERCENT, AND COMES ON TOP OF THIS YEAR'S INCREASE OF ONLY 5.4 PERCENT, WILL DECLINE TO 0.75 PERCENT OF THE TOTAL BUDGET. IN ADDITION, LOANS BY THE OVERSEAS ECONOMIC COOPERATION FUND ARE BUDGETED AT YEN 227 BIL (\$0.7

BIL) OR 4.9 PERCENT LARGER THAN IN THE CURRENT YEAR.

6. GENERAL ASSESSMENT: EVERYONE HAS BEEN TRYING TO DECIDE WHETHER THE NEW FUKUDA DESIGNED BUDGET WILL AT LONG LAST LIFT THE ECONOMY FIRMLY OUT OF ITS DEEPEST POSTWAR RECESSION. AT FIRST BLUSH BUSINESS WAS ENTHUSIASTIC. IN TERMS OF THE UNPRECEDENTED SIZE OF THE DEFICIT, IT APPEARS VERY EXPANSIONARY. ACCORDING TO A MORE TRADITIONAL MEASURE (SEE 75 TOKYO A-544, ENCL. 5) GOVERNMENT SECTOR SPENDING IS PROJECTED TO INCREASE A LITTLE MORE RAPIDLY (13.3 PERCENT) THAN NOMINAL GNP (13.0 PERCENT) WHICH SHOULD BOOST THE RECOVERY PROCESS. NEVERTHELESS, INITIAL APPLAUSE HAS TURNED INTO CRITICISM BY TOP BUSINESS LEADERS, AND SKEPTICISM BY INFORMED ECONOMISTS (SEE TOKYO 1291).

IN THIS WEEK'S BUDGET DEBATES MIN FIN OHIRA ADMITTED THAT BUSINESS RECOVERY IS "STUMBLING" BUT ASSERTED THAT BY MAY THERE WILL BE A "FEELING OF RECOVERY" AND BY DECEMBER A "FEELING OF PROSPERITY" BECAUSE EXPORT PROSPECTS ARE BRIGHT AND THE EFFECTS OF PUBLIC INVESTMENT FROM LAST FALL'S PHASE IV HAVE BEGUN "TO SPREAD GRADUALLY." HOWEVER, SIMILAR STATEMENTS WERE MADE BY GOJ IN 1974 AND IN 1975. EMBASSY NOTES THERE IS LITTLE ADDITIONAL STIMULUS FROM PUBLIC WORKS OR HOUSING TO HELP BUOY UP INVESTMENT, AND THE FLIP REMAINS UNCHANGED. MUCH OF THE EXPENDITURE INCREASE OVER THE REVISED JFY 1975 BUDGET REPRESENTS INCOME TRANSFERS TO PERSONS UNDER EXISTING WELFARE PROGRAMS ENACTED LAST YEAR OR TAXATIONS WITH THE LOCAL GOVERNMENTS, AND A CONSIDERABLE PORTION WILL BE SAVED RATHER THAN SPENT. IT IS EASY TO SYMPATHIZE WITH THE COMPLAINT OF DEPRESSED BUSINESSES THAT THE NEW BUDGET WILL NOT FILL THEIR ORDER BOOKS, NOR NECESSARILY CREATE PROFITS.

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

CEQ-01 EPA-01 OES-03 FEA-01 /106 W

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P R 030907Z FEB 76
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6605
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION OECD PARIS UNN
COMUSJAPAN YOKOTA AB JAPAN
CINCPAC HONOLULU HAWAII

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7. EMBASSY COMMENT: THERE IS LITTLE RECOGNITION OF THE EXTENT TO WHICH THE MOST DYNAMIC DEMAND SECTOR, NAMELY PRIVATE INVESTMENT (25 PERCENT OF GNP AND WHICH TRADITIONALLY ABSORBED THE LARGE VOLUME OF CONSUMER SAVINGS) HAS COLLAPSED DURING THIS EXTRAORDINARY POSTWAR RECESSION. A FEW EPA ECONOMISTS BELIEVE JAPAN HAS REACHED THE END OF A MAJOR INVESTMENT BOOM (JUGLAR TYPE CYCLE) AND SEE LITTLE PROSPECT FOR ANY STRONG INVESTMENT RECOVERY IN THE NEXT YEAR OR TWO. IF TRUE, IT HAS CERTAINLY BEEN COMPOUNDED BY FUKUDA'S INSISTENCE ON A SLOW GROWTH (6 PERCENT PER ANNUM) POLICY, FOR WHICH THERE WILL ONLY BE MODEST NEED FOR ADDITIONAL INDUSTRIAL PLANT CAPACITY, CERTAINLY NOT UNTIL PRESENT CAPACITY IS MORE FULLY UTILIZED. IN THIS SITUATION THERE WILL BE MUCH LESS DEMAND FOR LIMITED OFFICIAL USE

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PRIVATE SAVINGS EVEN THOUGH CONSUMERS INSIST ON SUPPLYING IT IN AMPLE AMOUNTS. IN FACT, IF GROWTH IS HELD DOWN, REAL INCOME ADVANCES WILL BE SMALLER IN THE FUTURE, AND THE HIGH PERSONAL SAVINGS RATE MAY PERSIST. ECONOMIC RECOVERY COULD WELL BE STALLED FOR A CONSIDERABLE PERIOD IN SUCH A SITUATION UNTIL A NEW EQUALITY IN GROWTH OF SAVINGS AND INVESTMENT DESIRES FINALLY EMERGED. AN ALTERNATIVE WOULD BE TO FIND A NEW OUTLET FOR CONSUMER SAVINGS, EITHER IN THE GOVERNMENT OR EXPORT SECTORS. ALREADY THE "BALANCED BUDGET" CONCEPT HAS BEEN TEMPORARILY DISCARDED OUT OF EXPEDIENCY. AS A RESULT, ONLY 60 PERCENT OF GOVERNMENT SECTOR FIXED INVESTMENT IN JFY 1976 WILL BE FINANCED BY CURRENT REVENUES RATHER THAN 100 PERCENT AS IN THE PAST, ACCORDING TO EPA ESTIMATES. THIS IS PROVIDING AN IMPORTANT OUTLET FOR CONSUMER SAVING AND AVOIDS HAVING HIGH PERSONAL SAVINGS DEPRESS DEMAND AND THE RECOVERY PROCESS. BUT MOF DOES NOT PLAN TO REPEAT THAT IN THE FUTURE BECAUSE DEFICITS ARE CONSIDERED "INFLATIONARY." MOF IS ADVANCING ITS PLANS TO BROADEN THE TAX BASE BY IMPOSING A VALUE ADDED TAX NEXT YEAR. IF SO, THAT WILL FRUSTRATE THE NEED TO FIND BETTER BALANCE BETWEEN CONSUMER DESIRES TO SAVE AND PRODUCTIVE USE OF THEIR AVAILABLE SAVINGS. ANOTHER ALTERNATIVE, WHICH IS NOW BEING ACTIVELY PURSUED IS TO EXPAND EXP-

ORTS, ESPECIALLY OF INVESTMENT GOODS (FOR WHICH THERE IS CURRENTLY SLACK DEMAND AT HOME) THEREBY "INVESTING" SOME OF SAVINGS ABROAD. HOWEVER, THERE ARE LIMITS TO WHICH THE TRADE SURPLUS CAN INCREASE BECAUSE OF THE WILLINGNESS OF OTHER COUNTRIES TO ABSORB JAPAN'S EXCESS GOODS EVEN ON CREDIT, AND THE FACT THAT UNDER A FLOATING RATE REGIME THE YEN WOULD APPRECIATE AND AUTOMATICALLY LIMIT THE SIZE OF THE TRADE AND CURRENT SURPLUSES.

8. FOLLOWING ARE HIGHLIGHTS OF THE JFY 1976 BUDGET TO BE REPORTED IN DETAIL BY AIRGRAM NOW IN PREPARATION.

JFY 9176 BUDGET HIGHLIGHTS

AMOUNT IN	PERCENT INCREASE FROM	
BIL YEN	INITIAL	REVISED
	JFY 75	JFY 75

GENERAL ACCOUNT

BUDGET ITEMS:

TRANSFERS TO LOCAL

GOVTS	3,942.2	MIN 11.0	16.9
PUBLIC WORKS	3,527.2	21.2	6.4
NATL DEFENSE	1,512.4	13.9	11.6

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ECON COOP	183.1	3.6	4.7
OTHERS	15,131.1	21.6	20.0
TOTAL EXPENDITURES	24,296.0	14.1	16.6
TOTAL REVNUES	17,021.9	MIN 11.8	10.8
DEFICIT-BOND			
FINANCING	7,275.0	263.8	32.8
FLIP BUDGET FINANCED			
BY POSTAL SAVINGS,			
PENSION AND INSUR-			
ANCE FUNDS, ETC.	10,619.0	14.1	MIN 0.8

9. DECONTROL ON JULY 3, 1976.
HODGSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
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Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, ECONOMIC RECOVERY, PRICE STABILITY
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Copy: SINGLE
Draft Date: 03 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Enclosure: n/a
Executive Order: N/A
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Film Number: D760041-0396
From: TOKYO
Handling Restrictions: n/a
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ISecure: 1
Legacy Key: link1976/newtext/t19760285/aaaacxht.tel
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